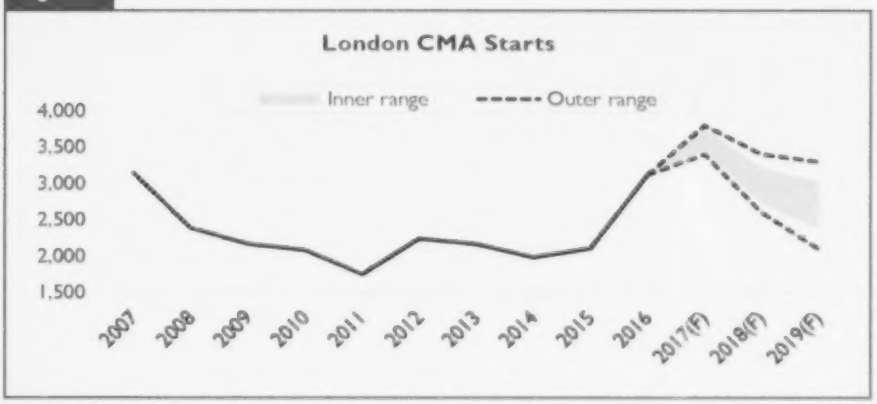
HOUSING MARKET OUTLOOK

London CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2017

Figure 1



Source: CMHC (F) = CMHC Forecast

Figure 2

Source: CREA; (F) = CMHC Forecast; MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Highlights[1]

- Total housing starts in London CMA are expected to trend lower in 2018 and 2019, but still remain elevated, due to a projected rise in wages and employment as well as demand spillover from the resale market.
- MLS® sales are projected to trend lower in 2018 and 2019, but still remain elevated, while growth in the average MLS® sale price is projected to decline from the 2017 level.
- The vacancy rate is expected to rise over the forecast horizon, owing to an increase in the supply of new rental apartments.

New Ownership Market

Total housing starts in the London Census Metropolitan Area (CMA) are expected to edge higher in 2017 and trend lower in 2018 and 2019, but still remain elevated. A projected rise in wages and employment, especially in the construction and healthcare and social assistance sectors, will strengthen demand for new single-detached homes over the forecast horizon.

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

Canada

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Moreover, continued demand spillover from the resale market for new single-detached homes, will encourage builders to start more single-detached homes.

Multi-unit starts in London CMA are expected to remain elevated over the forecast horizon, but decline slightly in 2018 and 2019. Higher growth in mortgage carrying costs will raise affordability issues and may prevent some renters from entering the ownership market, supporting demand for apartment starts. Continued growth of the population of seniors and an elevated number of immigrants entering London CMA over the forecast horizon will also place upward pressure on multi-unit starts, primarily for rental apartment units.

Existing Home Market

MLS® sales are anticipated to edge higher in 2017. Strengthening employment and a projected rise in weekly earnings will place upward pressure on sales. Also, strong population growth, through heightened immigration and continued migration of single-detached homebuyers from the Greater Toronto Area (GTA), will keep sales elevated over the forecast period. However, sales are expected to trend slightly lower in 2018 and 2019, as increasing mortgage carrying costs will dampen affordability.

Lower growth in the average MLS® sale price is expected over the forecast horizon, due to weakening demand and increasing supply in the resale market, as new listings will grow and sales are anticipated to trend lower. Price growth is projected to be the strongest in North London, driven by sustained demand from GTA buyers for highly priced single-detached homes.

Figure 3

Sources: CREA (F) = CMHC Forecast; MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

A weaker than projected job market, due to a more restrictive trade environment and a stronger than expected Canadian dollar, could result in lower housing demand and cause total housing starts, MLS® sales and the average MLS® sale price to be at the lower end of the outer forecast range. Furthermore, lower than projected resale price growth in the GTA may make homes in London less attractive to potential GTA buyers, resulting in lower housing demand – pushing total housing starts, MLS® sales and the average MLS® sale price toward the lower end of the outer forecast range.

Rental Market

The vacancy rate is anticipated to rise over the forecast horizon due to a strong increase in the number of new apartments completed in the second half of 2016 and the first half of 2017, as well as strong expected growth in new rental apartment completions in 2018 and 2019. Slightly fewer immigrants will move into London between 2017 and 2019, leading to lower growth in the number of occupied units and placing upward pressure on vacancy rates. However, increased mortgage borrowing costs are likely going to keep renters from entering the ownership market and prevent a stronger increase in the vacancy rate. Growth in the average two-bedroom rent is anticipated to decline and fall below the rate of inflation between 2017 and 2019, as supply for rental accommodations outpaces demand.

Economics and Demographics

Following a weakening in 2016, employment in London is projected to strengthen over the forecast horizon, driven by growth in the construction, educational services, and healthcare and social assistance sectors. Slowing but elevated US

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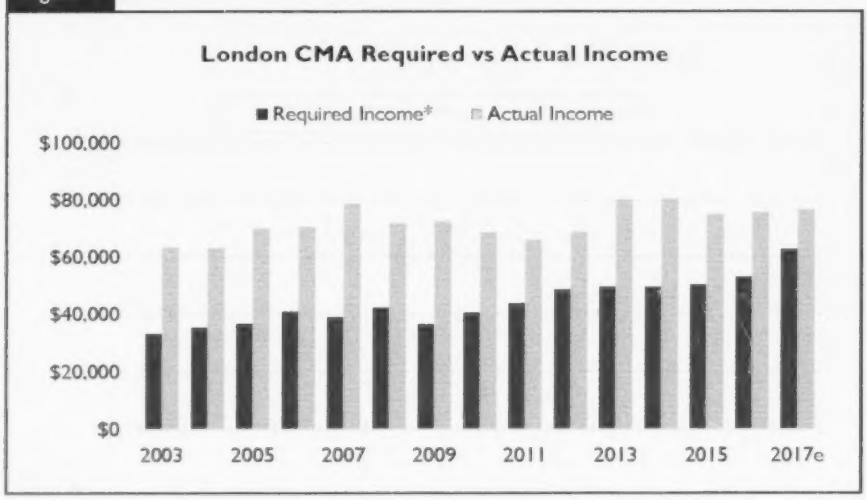
vehicle sales, and an improving US economy will support London's manufacturing sector, resulting in a strengthening labour market over the forecast period. Elevated housing starts and sales are expected to also support employment in the construction and finance, insurance, real estate, rental and leasing sectors. Finally, London's growing population of seniors will strengthen demand for health care professionals, lifting employment in the health care and social assistance sector.

With construction set to commence in 2018, London's $500 million Bus Rapid Transit (BRT) project is projected to boost migration and employment, especially within the city's growing construction sector. However, total population in London is expected to post slightly lower growth over the forecast period, owing to an expected decline in net migration. Net migration is projected to remain elevated but decrease relative to 2016, due to a lower number of net non-permanent residents following the surge of Syrian refugees entering London in 2016.

Figure 4



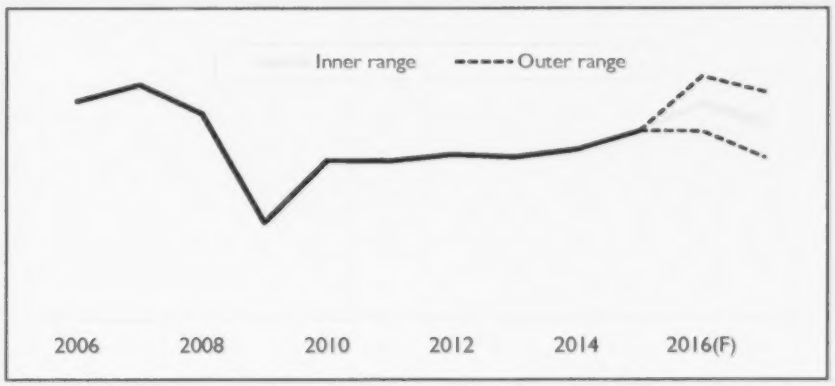
Source: CMHC, adapted from Statistics Canada, CREA; e=estimate
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32% gross debt service ratio.
Mortgage carrying costs are calculated on the average MLS® price, a 10% down payment, the fixed five year mortgage rate and the longest available amortization.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary London CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	1,116	1,046	1,425	1,700	1,850	1,350	1,550	1,150	1,400
Multiples	867	1,058	1,691	1,750	1,900	1,350	1,650	1,250	1,650
Starts - Total	1,983	2,104	3,116	3,450	3,750	2,700	3,200	2,400	3,000
Resale Market									
MLS® Sales	8,751	9,618	10,504	10,900	11,200	10,500	10,900	10,200	10,900
MLS® Average Price($)	255,453	265,370	279,634	323,500	329,000	326,200	335,800	329,100	347,900
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	2.9	2.9	2.1	2.5	2.8	3.0
Two-bedroom Average Rent (October)($)	943	963	1,002	1,020	1,030	1,040
Economic Overview						
Population	501,866	506,009	512,431	518,000	523,000	527,000
Annual Employment Level	243,000	252,000	245,900	250,000	253,000	256,000

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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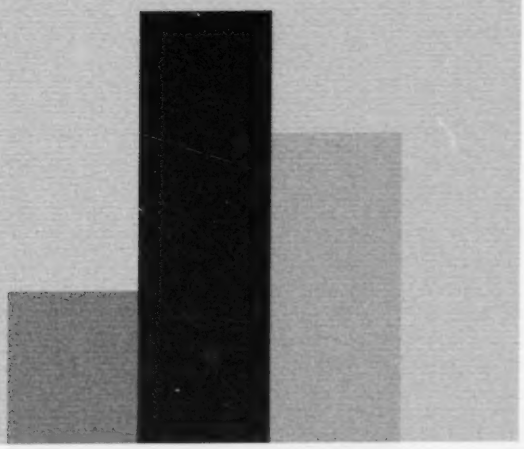

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